June 1, 2010

Jobs Bill vs. Deficit, a Showdown in the Senate

By DAVID LEONHARDT

WASHINGTON

You are a member of the Senate, and you're starting to get spooked by the deficit. Polls show that voters are worried about it. Economists are, too. Something needs to change.

But you're tired of politicians who pound the table about the issue without actually naming programs they would cut or taxes they would increase. You know that reducing the deficit is like losing weight: it's as straightforward as it is difficult. "We have to stop spending money we don't have," as Jim Cooper, a House member from Tennessee, said the other day.

When Congressional leaders announced plans for a new $200 billion jobs bill recently, Mr. Cooper and other centrist House Democrats saw a chance to do something tangible. Only about a third of the bill's cost would have been paid, by closing tax loopholes for investment managers and overseas businesses. The remaining $134 billion would have been added to the deficit. In response, the centrists said no and forced the leaders to cut the bill's spending nearly in half.

Now the slimmed-down bill is coming to the Senate, and you need to decide what to do.

It would still add about $54 billion to the deficit over the next decade. On the other hand, it could also do some good. Among other things, it would cut taxes for businesses, expand summer jobs programs and temporarily extend jobless benefits for some of today's 15 million unemployed workers.

"Oh, Master, make me chaste and celibate — but not yet," Saint Augustine famously said.

What you want to know is when, at long last, will it be *yet*?

The case against the jobs bill starts with the idea that the economy is recovering. Since the

recession's nadir, in January 2009, the job market has improved at the most rapid pace since 1983. On Friday, forecasters expect the Labor Department to report that job growth continued to accelerate in May.

There is always the chance that the economy could slip back again. But the case for optimism seems stronger. Corporate executives are becoming more upbeat, surveys show. Business travel has picked up. Silicon Valley firms are doing more deals. Nissan broke ground last week on a car battery plant in Tennessee, and Chrysler is adding 1,100 jobs at a Jeep plant in Michigan.

No one doubts that Washington will eventually have to switch from Keynesian pump-priming to fiscal discipline. If the economy has turned a corner, you wonder if maybe that moment has arrived. You know it certainly can't be too far off.

Including the jobs bill, the deficit is projected to grow to about $800 billion five years from now (and that's assuming the White House can persuade Congress to make some proposed spending cuts and repeal the Bush tax cuts for the affluent). To be at a level that economists consider sustainable, the 2015 deficit needs to be closer to $600 billion. Only then would normal economic growth be able to pay it off.

So Congress needs to find $200 billion in savings. By voting down the jobs bill, it would save about $50 billion by 2015 and get one-fourth of the way to the goal. That's not nothing. In a nutshell, it's the case against the bill.

Unfortunately, you also know that the deficit over the next several years isn't the main problem. Medicare is. It and, to a lesser extent, Social Security and Medicaid are on pace to spend far more money than taxpayers will pay into the system.

That means the deficit will continue to grow in the years ahead. To get it under control, Congress doesn't just need to cut $200 billion by 2015. It needs to do that and then find more cuts for 2016, yet more for 2017 and vastly more for the decades that follow.

In this context, the jobs bill looks a lot smaller. Its cost is equal to only about 2 percent of the total cuts needed to get the deficit to an acceptable level over the next decade. Beyond the next decade, the bill could actually save money, because its spending is temporary — mostly by 2012 — while its closing of tax loopholes is permanent.

Of course, even if the bill is not very expensive, it is worth passing only if it will make a difference. And economists say it will.

Last year's big stimulus program certainly did. The Congressional Budget Office estimates that 1.4 million to 3.4 million people now working would be unemployed were it not for the stimulus. Private economists have made similar estimates.

There are two arguments for more stimulus today. The first is that, however hopeful the economic signs, the risk of a double-dip recession remains. Financial crises often bring bumpy recoveries. The recent troubles in Europe surely won't help.

The second argument is that the economy has a terribly long way to go before it can be considered healthy. Here is a sobering way to think about the situation: If the next four years were to bring job growth as fast as the job growth during the best four years of the 1990s boom — which isn't likely — the unemployment rate would still be higher in 2014 than when the recession began in late 2007.

Voters may not like deficits, but they really do not like unemployment.

Looking at the problem this way makes the jobs bill seem like less of a tough call. Luckily, the country's two big economic problems — the budget deficit and the job market — are not on the same timeline. The unemployment rate is near a 27-year high right now. Deficit reduction can wait a bit, given that lenders continue to show confidence in Washington's ability to repay the debt.

As a result, Congress does not have to choose between the problems. It can pass the jobs bill, putting people back to work, and even pass a separate bill to help struggling states. History has shown that state aid, which prevents layoffs of teachers, emergency medical technicians and other workers, is the single most effective form of stimulus.

But this new spending needs to be accompanied by something more credible than Augustine-like vows of future parsimony. It should be paired with substantive cuts to continuing policies, like subsidies for oil companies and agribusinesses, outdated weapons systems, NASA's moon program and at least some Bush tax cuts, among many other things.

That is the right economic strategy. It's probably the right political one, too. It shows serious concern about both jobs and the deficit.

So what do you say, Senator?

E-mail: leonhardt@nytimes.com